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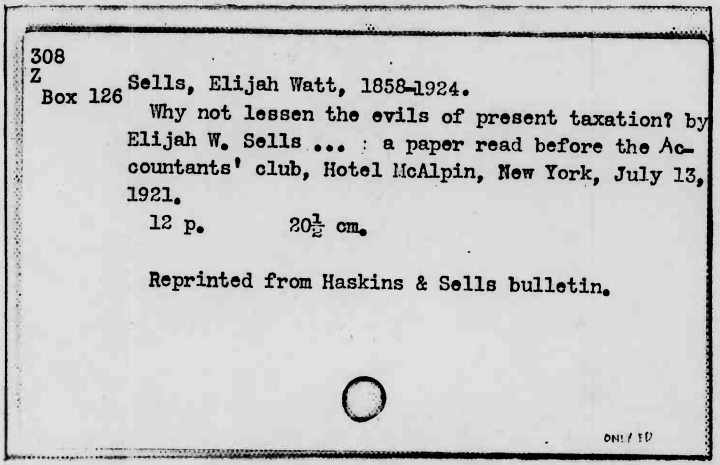

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Why Not Lessen the Evils of Present Taxation?

By ELIJAH W. SELLS, C.P.A.

Author of "Corporate Management Compared With Government Control," "You Can't Judge Your Business By the Past Three Years," Etc.

A PAPER READ BEFORE THE ACCOUNTANTS' CLUB, HOTEL McALPIN, NEW YORK, JULY 13, 1921

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Why Not Lessen the Evils of Present Taxation?

By ELIJAH W. SELLS, C. P. A.,

TAXES we have eternally with us. They are the price we pay for civilization, organization, government. They began under the regime of Moses, starting with a ten per cent. income tax called "tithes." Taxation in some form has never left the earth since that time.

While much has been written and said upon the subject of taxation and possible revision, it is still far from settled and there is apparently room for discussion.

Public accountants are peculiarly fitted to pass judgment on the subject of taxation. They touch every phase and problem of business in some way and are also familiar with the affairs of government, federal, state and municipal. They perceive, at close range, the effect of taxation on business and the great disturbance which it causes. Better than any other class do they know the superior excellence, economy and efficiency of the management of business as compared with that of government and the far-reaching meritorious effect of business upon all interests.

The practice of my own firm has taken us during the past year into the affairs of several thousand concerns, and much of our work has involved tax problems from so many angles that it has forced on us conclusions as to present methods and needs. This is typical of all practicing public accountants.

To run the government of a nation, state or city requires money, and the bulk of that money can come only through taxation. The greater the amount of funds required the greater the amount that must be furnished by the people. This we accept as self-evident, natural, inevitable. But we have a right to demand, and a duty to make our demand vigorous and insistent, that the basis of that taxation be wisely considered, fair and equitable, aimed at no one class, the tax widely distributed, and arranged so that it fulfils its purpose with the minimum disturbance of business and the welfare of the individual.

The present federal income tax with its surtax for individuals and its excess profits tax for corporations, is flagrantly unfair, inequitable and fulfils its purpose with the maximum disturbance of business and the welfare of the individual. During the war loyal citizens faced it cheerfully, accepting its discrimination and injustice as a minor matter in the dark shadows of a world tragedy. They took it as but another of the necessary evils of war. But they are now rightly and insistently registering their protest against its continuance, with its bad features unchanged, as an unnecessary evil in time of peace and as disturbing, disheartening, and destructive to business activity and enterprise.

Business is the very life-blood of the nation. It employs labor, pays its bills, adds to the wealth and influence of the country, and keeps money in circulation. Whatever drains business of its resources dulls its initiative, saps its vitality and

holds the nation back from reconstruction and sane, normal progress. The government's just need of money does not essentially make right its method of getting it.

The present income tax, and its twin incumbrances, the surtax and the excess profits tax, are wrong because they cripple unnaturally individual and corporate enterprise and activity at the very hour when they are most needed. When a patient is slowly convalescing from the severe shock of a long, hard, weakening illness in which he may have lost much blood it is not an auspicious time to bleed him further. This is precisely what is being done to business by the government in the name of taxes.

Since we entered the war we have heard constantly of thrift. It has been dinned into our ears by thousands of speakers, has been flaunted at us in our morning papers, and has been relentlessly billboarded and placarded into our consciousness as one of the supreme duties of life. As a war measure it was a needed and inspiring call. Thrift was a supreme duty then. It is a great duty now and always.

There are two phases of thrift that must be printed in red letters for Congress to read in relation to our taxes. Let the Government today, no matter what it did during the war, practice the thrift it preached to the people. Let it take its own medicine, eliminate the waste, the extravagance, the reckless administration, the appalling expenditure in bills which appeal to certain classes and that have in them more practical politics than practical

patriotism. Let Congress realize that even a billion dollars is worth saving and exercise some of this thrift. Such a course would reduce the demands of the tax, put us in a better position to pay what we have to pay and make the paying easier. The other present lesson in thrift is for the Government to learn to save the business of the nation instead of losing it by sapping its substance; save business so that business may save enough to pay its taxes. The individual is encouraged to be thrifty; to "lay something up for a rainy day." A corporation should do the same, since a good year may precede one or more bad ones and the accumulated reserve may be needed to make up the deficit of the poorer years. But most of all business should save for its rehabilitation and further expansion.

The iniquitous excess profits tax and surtaxes are uneconomic in that they stimulate extravagance and reckless expenditures in many ways instead of inspiring thrift. Many businesses have used advertising space beyond their real needs, have been willing to pay unnecessarily high prices for labor, and have plunged into expenses that ordinary business wisdom would not sanction under normal conditions, thereby intensifying an already abnormal condition. Taxes are responsible for these extravagances.

The Government Loan Organization is advertising for the Legion of Dollar Savers (a squad in every home) to invest their savings in the future of the United States of America and says: "Business will boom

and factories reopen—but more money will be needed to enable the wheels of industry and commerce to turn at full speed. . . . Dollars invested through this channel will ultimately promote business enterprise and provide employment for all."

While these few dollars saved and added to business are desirable it is more essential to conserve and protect the billions of dollars that are now in business. The Government should recognize the rights of the large interests not as against those less prosperous, but in order that there may be cooperation between them in the resuscitation of business and the promotion of its further progress.

Fostering the interests of those who have billions now invested in business will "promote business enterprise and provide employment for all" with greater rapidity than can be hoped to be accomplished by the Government's invitation to the "Legion of Dollar Savers" to subscribe dollars in small quantities, commendable as that may be.

Moreover, those of the Legion of Dollar Savers who have the requisite character and capacity will, if they respond to the Government's call, soon find themselves in the same position that the large investors are today, because the small investors are in exactly the same position today as were the large investors only a few years ago.

During the last two years millions have been withdrawn from business by those in the higher groups of profits and disposed of among those less successful, in such installments as to keep the latter out of the

high brackets of profits, and make the tax resulting less than they receive in cash distribution. So much of the value of these interests as could be paid for in cash has been reinvested in nontaxable municipal, state and county bonds. There have also been millions in securities, belonging to those having large holdings, disposed of and the proceeds likewise reinvested in nontaxable bonds. The aggregate of these processes makes an enormous drain upon business resources. But there are other evils. Investment in the nontaxable bonds has encouraged extravagances in municipal, state, and county expenditures with increasing debts and high interest for the future. This has brought about high prices for labor and materials and has had a tendency to interfere with needed housing operations at reasonable prices.

In many cases those having large invested interests have actually given away millions to members of their families and others in order that the aggregate of the taxation for the estate may be lessened.

The law defeats its very purpose by causing a decline in excess profits and surtaxes from these various sources.

Note an example of the cramping and paralyzing effect of this taxation. If a partnership undertakes to save one-half of its year's profits for the capital necessary to take care of its future needs and expansion, and one member's share of the profits amounts to a quarter of a million dollars, he will at the present rate have to obtain outside of his business $1,670 in

order to pay his federal income tax and surtax amounting to $126,670. Thus he would have to pay more than he actually received in money out of the business, to say nothing of providing for his state income tax, his real estate tax, if he is fortunate enough to own his own home, or other taxable property and all the expenses incidental to domestic and other needs.

This is typical of countless other instances of the injustice and the inequity of the present taxation. It is an un-American tax and does not fit in with the spirit or needs of our people. It was modelled on the income tax of Europe where conditions were different from those of this country at the time of its enactment. In Europe were many large entailed estates, the heirs to which had little or no relation to business while in this country both the money and those who inherit it or make it are actively engaged in business. In Europe the income tax does little harm and is but a slight disturbing factor. The British government developed a plan of taxation on the average of three years' income which is a better basis for establishing a nearer approach to equilibrium in government revenue. In America the income tax does more harm with less justification for its being. But this income tax is with us and is likely to remain. We must accept its bad principles but modify its terms.

What should be done and without delay is threefold: First, eliminate the surtax and the excess profits tax; second, reduce the present income tax rate; third, provide in their place a new tax which will yield the

needed revenue with the least possible disturbance of business, whether corporate, partnership or individual.

A tax that would apply only upon sales to the consumer and would not be made on sales of raw materials, partly manufactured articles sold to manufacturers, or on products sold to jobbers for resale, would be just and equitable.

The tax on consumption to be paid by the consumer should be a uniform rate for each of the various lines or grades, starting with a small per cent on necessities and articles in common use and graded up to a high rate for luxuries. With no serious disturbance to any business, it would produce billions annually for the Government's needs. The term consumption, as applied to taxation, should be construed in its largest meaning and its widest applications.

This form of taxation would have many advantages:

(1) It would give wider distribution so that all classes would pay and being in small amounts would not be a drain on the finances of any.

(2) Being paid at the time of sale, the likelihood of tax evasion would be lessened and as a "pay as you buy" tax would be paid in trifling sums as a finality, instead of being massed as a large amount to be paid later.

(3) It would tend to stabilize prices to the consumer and eliminate excessive profits that in many cases are intended to anticipate undetermined taxes. There would be no incentive for the dealer to avoid payment as it would be collected from others and held apart for that purpose.

(4) It would be a genuine encouragement to economy and thrift because the bulk of the taxes would fall upon expenditures and not upon profits that are accumulated. It would place no limits or determents to what an individual, partnership or corporation might make or save.

(5) Taxation on spending, not on earning, applied in large measures, and distributed against all who make expenditures would be logical, safe and equitable. It would give the individual the largest measure of freedom in his financial affairs.

(6) It would be a simple form and relatively easy of administration. It would be computed mostly by business houses equipped to keep records and perform this service economically and efficiently. The stamp tax plan could be applied to the small businesses.

Taxation based upon consumption with varying rates, from the minimum for the necessities to the maximum for the luxuries, is not unlike the principle applied to the tariff which this government adopted at the beginning and has continued to the present time, varying only as party politics made the rate high or low.

We must recognize that our government is going on for many years to come expending billions for civil operations and armament, part of which may be needless and unwise, in addition to the interest on war debts and their ultimate redemption. The American people must see the problem of raising revenue by taxation with broad,

clear vision and with practical, not theoretical, knowledge of business and its needs. A Congress which ignores the needs of business invites further industrial calamity and economic discord that is far reaching. Just as surely as discrimination against small incomes is reprehensible so is that against large incomes. What is needed is not favoritism to either, but justice to both. The interests of business and the interests of the country generally are identical. The prosperity of the one means the prosperity of the other. Any injustice or other cause which hampers business affects adversely the whole country and all of the people.

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